STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Central Illinois Light Company d/b/a AmerenCILCO **Proposal to establish a new rider titled PRP - Price Response Program.**	:	**06-0691**	
Central Illinois Public Service Company d/b/a AmerenCIPS **Proposal to establish a new rider titled Rider PRP - Price Response Program.**	:	**06-0692**	**(Cons.)**
Illinois Power Company d/b/a AmerenIP **Proposal to establish a new rider titled Rider PRP - Proposal Response Program.**	:	**06-0693**	

ORDER

DATED: December 20, 2006

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ORDER

By the Commission:

I. PROCEDURAL HISTORY

On September 29, 2006, Central Illinois Light Company d/b/a AmerenCILCO ("AmerenCILCO") filed with the Commission its Ill. C. C. No. 18, 1st Revised Sheet No. 28, Original Sheet No. 28.001, Original Sheet No. 28.002, Original Sheet No. 28.003, Original Sheet No. 28.004, and Original Sheet No. 28.005; Central Illinois Public Service Company d/b/a AmerenCIPS ("AmerenCIPS") filed with the Commission its Ill. C. C. No. 16, 1st Revised Sheet No. 28, Original Sheet No. 28.001, Original Sheet No. 28.002, Original Sheet No. 28.003, Original Sheet No. 28.004, and Original Sheet No. 28.005; and Illinois Power Company d/b/a AmerenIP ("AmerenIP") filed with the Commission its Ill. C. C. No. 35, 1st Revised Sheet No. 28, Original Sheet No. 28.001, Original Sheet No. 28.002, Original Sheet No. 28.003, Original Sheet No. 28.004, and Original Sheet No. 28.005, hereinafter jointly referred to as "Filed Rate Schedule Sheets", for AmerenCILCO, AmerenCIPS, and AmerenIP (collectively the "Ameren Illinois Utilities" or "Company") to be effective November 13, 2006, for the Company to comply with the requirements of 220 ILCS § 5/16-107(b-5) of the Public Utilities Act ("Act"), as added by Public Act 094-0977. The purpose of these filings was to introduce Rider PRP – Pricing

Response Program ("Rider PRP") as a new real-time pricing ("RTP") service intending to be compliant with Public Act 094-0977, which encourages participation of residential customers in the Company's demand response programs.

On October 25, 2006, the Commission entered three Orders suspending the effective date of the Filed Rate Schedule Sheets to and including February 25, 2007, and initiating these proceedings. Petitions to intervene were filed and granted on behalf of the People of the State of Illinois (the "People"), and the Citizens Utility Board ("CUB"). Staff of the Commission ("Staff") entered its appearance. No other entries of appearance were received.

On December 1, 2006, the Ameren Illinois Utilities filed Direct Testimony of two witnesses: Richard Voytas, Manager of Corporate Analysis, Ameren Exhibit 1.0, describing the value of and benefits associated with a RTP rate, and Ameren Exhibit 1.1 Summary of AmerenUE Residential Time-Of-Use Pilot; and Leonard M. Jones, Managing Supervisor – Restructured Services – Regulatory Policy and Planning, Ameren Exhibit 2.0 describing the primary features of Rider PRP, Ameren Exhibit 2.1 which is Rider PRP, Ameren Exhibit 2.2 which is the Request For Proposal ("RFP") for Program Administrator ("PA") Services for Residential Real-Time Pricing Program in Illinois, and Ameren Exhibit 2.3, a form of a contract describing the terms and conditions of services to be provided by the PA.

On December 4, 2006, CUB filed Rebuttal Testimony of three witnesses: Dr. Lynne Kiesling, Senior Lecturer in the Department of Economics at Northwestern University; Dr. Bernard F. Neenan, Vice President, Pricing and Demand Response, at UtiliPoint International, Inc.; and Christopher C. Thomas, CUB's Director of Policy. Staff filed the Rebuttal Testimony of Dr. Eric Schlaf on December 5, 2006.

The People recognize that hourly pricing is an effective mechanism to promote demand reduction, but took no position on the specific matters in this docket. The People do not object to entry of this Order.

Pursuant to notice as required by law and the rules and regulations of the Commission, an evidentiary hearing was held in this matter before a duly authorized Administrative Law Judge ("ALJ") of the Commission at its offices in Springfield, Illinois, on December 6, 2006. At the hearing, the Ameren Illinois Utilities, CUB, and Staff submitted testimony by affidavit. At the conclusion of the hearings, the ALJ marked the record "Heard and Taken."

II. PRIOR RELEVANT PROCEEDINGS AND APPLICABLE LEGAL STANDARDS

On January 24, 2006, in Docket Nos. 05-0160, 05-0161, and 05-0162 (cons.), the Commission approved the Company's proposal to permit residential retail customers to take market-based, hourly energy pricing service under Rider RTP beginning January 2, 2007. Those tariff provisions satisfied the requirements of Section 16-107(b) of the Act that existed as of January, 2006. On June 30, 2006, Public Act

094-0977 became effective and added Sections 16-107(b-5) through (b-25) to the Act. The implementation of a residential RTP program was being addressed in the Companies' delivery service rate cases in Docket Nos. 06-0070, 06-0071, and 06-0072 (Cons.) at the time Public Act 094-0977 became law. As a result, the Commission found in Docket Nos. 06-0070, 06-0071, and 06-0072 (Cons.) that compliance with certain requirements of Public Act 094-0977 had not been demonstrated and rejected Rider ESP, and acknowledged this proceeding as the appropriate forum to consider an RTP tariff that is compliant with Public Act 094-0977.

The new law requires electric utilities with more than 100,000 retail electric customers to file a tariff or tariffs that allow residential customers to elect RTP. It states that such tariff "shall, at a minimum, describe (i) the methodology for determining the market price of energy to be reflected in the real-time rate and (ii) the manner in which customers who elect real-time pricing will be provided with ready access to hourly market prices, including, but not limited to, day-ahead hourly energy prices." (220 ILCS §5/16-107(b-5)) Section 16-107(b-15) provides if the Commission finds that RTP has the potential to provide net economic benefits to residential customers, then the Company must contract with an entity to administer its RTP program. Section 16-107(b-25) provides that the Company may, with Commission approval, socialize some or all of the costs of the program over the entire residential customer base.

In this Order, the Commission addresses the Companies' compliance with the requirements of Section 16-107(b-5), based upon the tariffs already approved in Docket Nos. 05-0160, 05-0161, and 05-0162 (cons.), together with the Companies' proposed Rider PRP in this proceeding. The Commission also addresses, under Section 16-107(b-15), the Companies' selection and compensation of its RTP PA. Lastly, the Commission addresses how the Company shall recover the costs associated with its PRP Program that it is entitled to recover under Section 16-107(b-25), and will decide the proper allocation of those costs between participants and non-participants.

As stated, Section 16-107(b-15) provides that if the Commission approves RTP tariffs pursuant to Section 16-107(b-5), the electric utility must contract with an unaffiliated entity to serve as a PA to provide customer outreach, enrollment and education concerning the RTP Program, and to establish and administer an information system and technical and other customer assistance. The PA: (i) shall be selected and compensated by the electric utility, subject to Commission approval; (ii) shall have demonstrated technical and managerial competence in the development and administration of demand management programs; and (iii) may develop and implement risk management, energy efficiency, and other services related to energy use management for which the PA shall be compensated by participants in the program receiving such services.

Section 16-107(b-15) also directs that the electric utility provide the PA with the information and assistance necessary for the administrator's duties, including (but not limited to) customer, account, and energy use data. Additionally, the electric utility shall permit the PA to include inserts in residential customer bills twice per year to assist with customer outreach, education and enrollment.

The PA is selected by the Company and must be approved by the Commission. The PA must have demonstrated technical and managerial competence in the development and administration of demand management programs. Pursuant to Section 16-107(b-15), the PA is required to develop and implement a program to provide consumer outreach, enrollment, and education training concerning RTP to customers. The PA is also required to establish and administer an information system, and provide technical and other customer assistance necessary to enable customers to effectively manage electricity usage. 220 ILCS § 5/16-107(b-15).

Section 16-107(b-20) imposes another requirement that, by its very nature, the Commission is not addressing at this time. Section 16-107(b-20) requires the Commission to monitor the performance of the programs created pursuant to Section 16-107(b-15), and directs the Commission to order that a program be modified or terminated if, after a period of time not to exceed four years, the Commission finds it has not resulted in net benefits to residential customers. The Commission acknowledges a proceeding must be initiated during the fourth year to address such net benefits and the termination or modification of the PRP Program, as described in the Description of the Program section of the proposed Rider PRP. The Commission makes no findings in this Order under Section 16-107(b-20), and nothing in this Order shall be deemed controlling with respect to any future proceeding under Section 16-107(b-20).

III. DISCUSSION

A. Features of the Company's Rider PRP – Price Response Program; Customer Eligibility

Mr. Jones testified that Rider PRP outlines the service to be offered to those residential customers who elect to participate in a RTP program through the assistance of a PA. The proposed tariff outlines certain responsibilities of the PA, certain terms and conditions required of participating customers, and recovery of the Company's costs associated with administering Rider PRP.

According to Mr. Jones, all residential customers taking Rate DS-1 – Residential Delivery Service and service under Rider RTP are eligible to take service under Rider PRP. This is so because Rider RTP, in conjunction with Rider MV, describes the methodology for determining the appropriate market price of energy. Rider RTP also provides the hourly prices, real-time and day-ahead prices for the applicable Midwest Independent Transmission System Operator ("MISO") delivery point, be posted on www.ameren.com. Thus, residential customers may take service under Rider RTP without also taking Rider PRP; however, customers on Rider PRP must also take service under Rider RTP.

Mr. Jones explains there are certain required prerequisites that customers must meet prior to taking service under Rider PRP. These include completing a PRP enrollment form with the PA acknowledging that they: 1) agree to participate in the Price Response Program; 2) are eligible for and agree to take service under Rider RTP; 3) have reviewed the terms and conditions of Rider PRP and Rider RTP; 4) authorize the Company to release to the PA electric energy usage and billing information of such Customer and all other information as permitted by law, rule, regulation, or tariff; 5) authorize a participation agreement to be secured and maintained by the PA; and 6) authorize their electrical usage data and billing information to be combined with data of other Rider PRP participants for purposes of evaluating consumer and system benefits under Rider PRP. Customers must also have the necessary interval metering prior to commencing service under Rider PRP and/or Rider RTP. Furthermore, customers must agree to a minimum service obligation of 12 months, as required by Section 16-107(b-5) of the Act. Upon completing the required minimum 12-month service obligation, customers may switch from Rider PRP to RES service by following the Company's applicable Direct Access Service Request procedures.

B. Recovery of Costs Associated with Rider PRP

1. Requirements of Section 16-107(b-25)

As previously stated, Section 16-107(b-25) provides that electric utility can recover the reasonable costs incurred in providing an RTP program, provided that such costs are fairly apportioned among its residential customers. The section further provides an electric utility may apportion costs on the participants in an RTP program, and also impose some costs on non-participant customers if the Commission determines the cost savings resulting from the program will exceed the costs imposed upon customers for maintaining the program.

2. Recovery of Administrative Costs

Initially, the Company recommended that customers be assessed a $3/month Participation Charge; however, the otherwise applicable $5/month Incremental Metering Charge for Rider RTP is to be waived, according to Mr. Jones. The Company subsequently agreed with CUB's recommended $2.25 Participation Charge. The Participation Charge is intended to defray some of the cost of administering the rider. Pursuant to Section 16-107(b-25), which states in part, "The electric utility may apportion greater costs on residential customers who elect real-time pricing, but may also impose some of the costs of real-time pricing on customers who do not elect real-time pricing." The Company proposes to recover the difference between the charges plus other program costs, from all residential customers.

Mr. Jones further explained that the cost of administering the program will be added to the Supplemental Customer Charges currently assessed to residential customers. The amount added to the Supplemental Customer Charges will be calculated within Rider PRP every six months for application on or about January 1 and

July 1 of each year, except the initial charge will be applicable within 60 days of Commission approval of Rider PRP.

3. Expected Costs to Be Incurred

Mr. Jones testified that there are four (4) primary expenses, and one cost offset, which the Company expects to incur as a result of providing Rider PRP. They include: 1) Waived Incremental Metering Charges, which represents the revenue the Company would have collected from Rider PRP customers to pay for a portion of the cost of installing interval metering at the customers' premises and processing interval demand data (i.e., the $5/month per customer charge); 2) PA Administrative Costs, which will be captured and billed to the Company; 3) Program Evaluation Costs associated with determining if the program is resulting in net benefits to residential customers; 4) Data Processing Costs associated with enabling the Company to process hourly data for large numbers of interval-metered Customers. The cost offset is the Participation Charge.

According to Mr. Jones, processing interval meter data is largely a manual process. Presently, the cost is approximately $85/year per customer, or $7.08 per month. Mr. Jones testified in the Companies' recent delivery services rate cases that automating the interval meter data handling process would require approximately $906,000 of additional software and software development. (Docket Nos. 06-0070, 06-0071, 06-0072 cons.) Based upon CUB's projected increase of residential participation from 2,000 in 2007 up to 20,000 in 2010, it is Mr. Jones' assessment that at the higher participation levels, it is cost effective to automate RTP data management. A value of $94,800 is embedded within the Rider PRP for recovery of the incremental data processing cost.

4. Other Prices Applicable to Rider RTP

Mr. Jones testified that the auction product for BGS-LRTP would have set the price for the Hourly Price Section Supplier Charge ("HPSSC") for Rider RTP-L – Real-Time Pricing – Large ("Rider RTP-L") customers; however, the auction results for the hourly products were rejected by the Commission by commencement of an investigation. The same pricing would have been used to establish the same charge for Rider RTP customers. Thus, rejection of the auction results for Rider RTP-L by default rejected the pricing for Rider RTP customers. The HPSSC recovered the cost of capacity, ancillary services, and market settlement associated with serving customers.

The Company has filed modifications to Rider MV tariffs to replace the auction product with a series of services procured by them. In summary, the Companies propose to assess separate capacity and ancillary services charges for customers taking service under Rider RTP.

C. Net Economic Benefits of Real-Time Pricing

1. Ameren Illinois Utilities' Position

Mr. Voytas describes the rate offerings included in the residential time-of-use pilot study conducted by Union Electric Company d/b/a AmerenUE ("AmerenUE") in 2004 and 2005. The first was a three tier time-of-use rate with high differentials. The second was a three-tier time-of-use rate with high differentials subject to a critical peak pricing ("CPP") element. A spin-off of the second rate offering included an enabling technology component where a "smart thermostat," that automatically increased customers' thermostat settings during critical peak pricing hours, was also offered to customers.

There was limited response to the three tier time-of-use rate with high differentials option. The CPP option appeared to reduce demand at the time of the system peak by approximately 10%. The CPP option coupled with the smart thermostat appeared to reduce demand at the time of the system peak by approximately 23%.

AmerenUE concluded that the CPP component of a residential time-of-use rate motivates customers to reduce demand during CPP events. AmerenUE also concluded that the CPP component coupled with a smart thermostat more than doubles residential customers' load response during CPP events.

Mr. Voytas provides general information regarding the United States Demand Response Coordinating Committee ("DRCC") in which Ameren Services on behalf of the Company is a member. The purpose of the non-profit organization is to increase the knowledge base in the U.S. on demand response and facilitate the exchange of information and expertise among demand response practitioners and policymakers. DRCC has been designated by the U.S. Department of Energy ("DOE") as the official expert body to represent the United States in the Demand Response Project of the International Energy Agency ("IEA").

Mr. Voytas discusses the DRCC's work with IEA as it relates to RTP rates. The IEA study was based on a regional market model that is generally applicable to most market regions, of which one of the outputs of the study was to calculate the value in terms of minimizing the net present value of revenue requirements relative to the implementation of RTP programs. When compared to building new power plants to serve load growth, the implementation of RTP programs has the potential to defer building new power plants, which appears to reduce overall costs or revenue requirements to serve load for this specific study in the neighborhood of $2 million on a net present value basis.

Mr. Voytas also addressed his involvement with the Community Energy Cooperative ("CEC") and commented on their success with the Energy Smart Pricing Plan pilot in Chicago. Residential participants in the pilot are given access to day-ahead prices on the co-op's website or by telephone and receive a telephone call or e-mail when prices are expected to rise past a certain level and are expected to maintain at that level for at least an hour. It is Mr. Voytas' understanding that of approximately 1,400 residential customers participating, 99% indicate they are saving money. Additional benefits show that customers are changing the ways they consume electricity in positive ways. There is also evidence that residential customers are replacing old, inefficient appliances at a very high rate.

In his testimony, Mr. Voytas also describes a California pilot study that was designed and evaluated by Dr. Ahmad Faruqui and Dr. Stephen George on the cost-effectiveness of RTP rates. Dr. Faruqui led an impact evaluation on California's scientifically-designed pricing experiment with time-varying rates for residential, small commercial, and industrial customers. The Statewide Pricing Pilot ("SPP"), as it came to be called, was funded by the state's three investor-owned utilities and conducted through a working group process involving the state's two regulatory commissions and numerous other interested parties. The experiment was conducted between July 2003 and December 2004 and involved approximately 2,500 customers. The SPP examined several pricing treatments, including time-of-use ("TOU") tariffs and CPP tariffs. The CPP tariff was a traditional TOU rate on most days but on 12 summer days and three winter days much higher prices were charged during the peak period. These high-priced days were called on a day-ahead or day-of basis, to simulate conditions that might be encountered when the power system goes critical.

Mr. Voytas described the results, which showed that residential customers will reduce their peak period energy use by about 5% in response to the TOU rate, which featured prices that were about twice as high as the standard price of 13 cents/kWh, and about 15% in response to the dynamic rate, which featured prices that were five times as high. If customers are given technology to facilitate response, for example, a smart thermostat that automatically adjusts the thermostat setting when prices are very high, peak period reductions exceed 25%. The extent of price responsiveness varies with air conditioning ownership, climate, and other customer characteristics.

Mr. Voytas concludes that it is highly probable that Rider PRP will result in net economic benefits for all residential customers. In addition to the substantial body of evidence that supports that time differentiated rates, including RTP rates, the result is in overall lower system costs to serve load. There is work from organizations like CEC that indicate residential customers are changing their energy consumption behavior for all hours in the year as a result of increased energy efficiency awareness due to participation in RTP rates. Consequently, Rider RTP should promote efficient resource use. The rate should also assist in providing bill stability for Illinois residential customers.

2. CUB's Position

CUB witness, Dr. Kiesling, testified to the benefits RTP provides with respect to market power mitigation, consumer choice, innovation and other areas. She also provided an overview of the theory behind RTP programs and the general value such programs offer. She ultimately concludes that customers of all types can and do respond to electricity price signals. Dr. Kiesling testified electric usage, which coincides with the "load" on the electric distribution system, follows patterns that vary over the course of the day and with the season. The general daily pattern is low (off-peak) demand overnight, with a rise in the morning and then a high-demand period in late afternoon and early evening (exacerbated by air conditioning on hot days) and then a return to the lower demand in the evening. The extent of the seasonal variance depends upon whether customers use electricity for heating and cooling and the degree to which the subject geographic area experiences extreme temperatures. Dr. Kiesling further explained that the cost of generating and distributing electricity also varies with demand during the course of the day and the seasons. She pointed out; however, the fixed retail rates paid by customers under standard retail rate regulation create a circumstance in which the price paid bears little relation to the cost of providing electricity in a given hour. Thus, consumers have no incentive to change their consumption during the high cost periods.

According to Dr. Kiesling, this disconnect between cost, price and consumption not only results in inefficient energy consumption, but also inappropriate investment in generation and transmission capacity. With RTP, customers do not pay a single rate, but rather pay the market price for electricity at the time it is consumed. RTP thus establishes an incentive for consumers to lower their usage during high-cost periods, which is the response from buyers in an efficient market that helps to stabilize prices.

Dr. Kiesling also testified that the development of technology has helped spur the growth of RTP initiatives. An effective RTP requires meters that provide current information on usage (as opposed to standard meters which measure usage monthly) and a means of communicating prices to customers. New digital meters provide customers with the usage information they need, and new communications technology such as the Internet permit the communication of price levels to customers sufficiently expediently to allow customers to act upon those prices. Additionally, the growing availability of RTP programs provides an incentive for the development of still better technology that will improve the effectiveness of the programs.

Dr. Kiesling further explained the benefits of RTP programs are extensive and widely agreed upon. The flexibility to respond to price signals afforded to RTP customers results in market power mitigation, lower wholesale electricity prices, better capital utilization and load factors, and a reduced need for additional generation and transmission investment. These benefits lead to long-term cost reductions relative to fixed, regulated rates.

Dr. Kiesling is careful to point out that RTP programs should be voluntary, like the Company's proposed PRP Program. Dr. Kiesling testified "[a]n important policy distinction arises between customers being required to see hourly prices, and customers having the opportunity to see hourly prices. Requiring real-time pricing would both contradict the idea of choice and expose some customers to more price risk than they might choose voluntarily."

Dr. Kiesling described several studies of RTP programs around the country and explained all of them either produced benefits or had the potential to produce benefits, particularly economic benefits, to participants and non-participants alike. For instance, a 2004 Rand study analyzed the benefits of the GridWise Initiative, a national effort to mandate improved electric service through RTP and related initiatives. Rand estimated the benefits of RTP to range from $32 billion to $132 billion. Dr. Kiesling further stated that studies of RTP programs directed at both commercial and consumer customers showed a very strong customer reaction to price movement that produced the positive effects described above.

Dr. Neenan testified to the expected gross benefits of the Company's PRP Program to participants and non-participants in the program. Due to time constraints, Dr. Neenan testified he was unable to conduct an in-depth study and original analysis to quantify potential economic impacts of offering RTP to the Company's residential customers. Instead, he used results of the comprehensive analysis he conducted to support his testimony in Commonwealth Edison Company's ("ComEd") RTP case, Docket No. 06-0617 ("ComEd's RTP Case"), to extrapolate the potential benefits of RTP implemented by the Company.

Dr. Neenan prorated the benefits associated with making RTP available for ComEd residential customers by 28% or .28. Dr. Neenan testified this ratio is equal to the expected number of the Company residential RTP participants (58,000), divided by the expected number of ComEd residential RTP customers (210,000) used in the previous study. The Company's benefits were set as equal to 28% of the corresponding benefits ascribed to ComEd RTP.

Supply and demand conditions between the two markets (the Company and ComEd) were compared using data that were readily available. Dr. Neenan explains the purpose was to ascertain the validity of pro-rating ComEd RTP benefits with the Company's market circumstances. He identified the important difference found as a result of this comparison: the number of residential customers served on a space heat tariff. Customers with space heat account for approximately 11.4% of the Company's residential customers versus 6.4% of ComEd's residential customers. To eliminate bias caused by the number of space heat customers, space heating customers were removed from the Company population of customers, as they were also removed in the ComEd study. Moreover, as in the ComEd study, the evaluation was limited to the Company's single-family homes to establish a reference population of the analysis. The reference population defines customers that are eligible for and likely to enroll in an RTP service, which are 28% of the equivalent number of reference customers in the ComEd study.

His analysis revealed that the Company's and ComEd's typical residential customer usage is substantially similar for the purposes of estimating RTP benefits. The differences are only about 10% in overall energy usage, and peak period usage. All other factors constant, specifically the assumed price elasticity and the relative price changes that RTP exhibits, small changes in load characteristics would result in only slightly lower price response. Dr. Neenan determined that based on the Company's demand factors, and assigning benefits proportional to those found in the analysis of the impacts of RTP at ComEd, (where that proportion was defined by the ratio of reference residential customers) the benefits accrued to the Company's residential customers would fulfill the obligation to demonstrate the level of potential benefits, as specified in the Act.

Dr. Neenan found modest differences in the average price, or the overall level of price volatility, between ComEd and the Company: 1) The average price in PJM's Interconnection, L.L.C.'s ("PJM") Illinois zone was $47.60/MWh while at MISO's Illinois Hub, the average price was $46.27/MWh, a difference of approximately 3%. The standard deviation indicates that the two ISOs exhibited roughly equal variability in the real-time LMP; 2) The monthly comparison of hourly price patterns reveals differences in the distribution and level of prices across hours of the day and days of the week that could influence the level of benefits to price response. Although both the level and variability in prices were similar across the two ISOs in June, there is an increasing level of discrepancy in both the average and standard deviation of prices during weekday afternoon hours between July and August.

Dr. Neenan describes the consequences of these differences. Price spikes elicit substantially more price response than other times. Thus, RTP reduces prices by a far greater degree during price spikes than at lower price levels, resulting in substantially larger benefits. So, a single or limited number of very high-priced hours in the Company's region, since it has the lower average price, could produce a net benefit that meets or exceeds the benefit generated by RTP in ComEd's higher average-priced region. Specifically, the analysis shows that with more frequent prices between $100 and $500/MWh, one could assume that slightly more load would be reduced in the Company than during comparable days in ComEd. Overall, Dr. Neenan opines that, all other things equal, last summer's supply conditions created an approximately equal incentive for price response by residential RTP participants in the Company's and ComEd's territories.

For participants, Dr. Neenan identified four benefits – hedge savings, bill savings, reduced capacity requirements and benefits from increased usage at low RTP prices. Hedge savings occur due to the elimination of a "hedge premium" inherent for customers who pay a single rate. That single rate must reflect the very high prices, which occur at times of peak system usage, and thus most of the time customers are paying more than the market price, *i.e.*, a premium, for the electricity they consume. Dr. Neenan testified "the premium reflects the forward view of the market and a corresponding expectation for hourly real-time LMPs." RTP avoids the hedge premium by freeing customers to pay the current market price. Bill savings occur because RTP customers reduce their usage when hourly rates are high. The forgone kilowatt-hours ("kWhs") of usage result in bill savings because customers pay nothing for electricity not used. He testified that reduced capacity requirements result in lower prices because, at times of peak usage and the corresponding peak LMP prices, RTP customers reduce their usage which in turn reduces the amount of electricity needed by the supplier who must meet the customers' demand. Lastly, according to Dr. Neenan, RTP will encourage customers to use more electricity at low prices, which results in increased comfort, safety and convenience for customers.

In his testimony, Dr. Neenan testified non-participants in the RTP Program benefit from RTP through direct price impacts, secondary price impacts and societal benefits. He also testified direct price benefits result from reduced demand from RTP customers, which lowers real-time market prices. At times of peak demand, the supply curve becomes "steep," meaning that changes in demand have a greater impact on price than they do during times of lower demand when the supply curve is "flat." Accordingly, even a small reduction in demand can meaningfully lower the price. Real-time market buyers – the electricity suppliers – realize the benefits of these lower prices, and competitive forces compel them to pass the benefits on to their customers. Indirect price benefits result, according to Dr. Neenan, because the real-time load reductions have a cascading effect on the entire market. The lower LMP prices and volatility in those prices that result from reduced peak demand place downward pressure on the hedging premium, and thus lower prices, for single-rate customers.

In ComEd's RTP Case, Dr. Neenan estimated RTP benefits for the period 2007-2011 for three different market outlooks that reflect recent market supply conditions (Base Case), conditions that would produce somewhat higher LMPs (Mid Case) and conditions that would produce considerably higher LMPs (High Case). In addition, he developed an expected benefits estimate by weighting the three market outlooks by the probability of their occurrence. Total residential customers benefit, which he testified should be used as the basis for the Commission's determination of cost effectiveness, range from \$5.2 million per year in the Base Case to \$16.6 million per year in the High Case.

Dr. Neenan recommended the Commission use the expected value as the basis for establishing gross potential benefits, which can be compared to an estimate of program administration costs to determine the net benefit to residential customers. Because of the explicit nature of the Act's criteria, which stipulated that only residential customer benefits be used in the determination of benefits, residential benefits were separated from those that accrue to other customers. The expected level of annual benefits, which Dr. Neenan recommended the Commission use in its determination, is \$7.2 million per year.

Dr. Neenan estimated the gross potential benefits of making the RTP available to 58,000 of the Company's residential customers. This level of participation was proposed by Mr. Thomas as the level of enrollment that a mature program could achieve. Dr. Neenan's analyses show that the potential benefits to all residential customers are, on average, \$7.2 million per year, under realistic but somewhat conservative assumptions. Dr. Neenan further finds that a well-designed and administered program to foster price response can result in potential benefits to all residential customers of between \$9.6 and \$11.8 million per year.

Mr. Thomas testified to the expected net economic benefits to participants and non-participants by taking Dr. Neenan's benefits testimony and analyzing the benefits in light of the costs of the program. Dr. Neenan's analysis purports to quantify the gross economic benefits that the RTP Program can achieve. Section 16-107(b-5), however, requires that the Commission consider the "net economic benefits" from the program, which necessitates an evaluation of the RTP Program's expected costs. Mr. Thomas supplied the cost analysis. He estimated that the RTP Program would cost $4.6 million, which when offset against the $7.2 million in gross benefits estimated by Dr. Neenan, produces a total net economic benefit of $2.6 million to the residential class alone. Mr. Thomas testified that this calculation is conservative because it relies on the minimum case and only includes the benefits that were evaluated by Dr. Neenan. However, as Dr. Neenan explains, it is entirely reasonable to expect a higher level of demand response from a mature program. Therefore, the potential for demand reductions should result in the First Step elasticity case, which produces $9.6 million in gross economic benefits or $5 million in net economic benefits.

In testimony, Mr. Thomas also addressed the requirement contained in Section 16-107(b-5), that the potential demand reductions which result from the Company's PRP Program, embodied in Rider PRP used in conjunction with Rider RTP, must be shown to create "net economic benefits to all residential customers of the electric utility." Mr. Thomas's estimate rests upon the following four assumptions: (i) that the RTP Program has 58,000 customers; (ii) incremental metering costs are $5.00 per participant per month; (iii) $189,570 for incremental data processing fees; and (iv) annual PA costs of $954,680.30. Each assumption is discussed below.

At 58,000, the estimated number of RTP participants represents approximately 6% of ComEd's total residential customer base. This equates to 10% of the reference population discussed in Dr. Neenan's testimony at page 31. Although at first glance this figure appears high, Mr. Thomas provides three reasons that establish the estimate as reasonable. First, the size of the program is consistent with market research conducted by CEC who is the current pilot PA. Survey data from the CEC study indicates that nearly 41% of the Company's customers expressed interest in a variable rate electricity pricing plan, and that over 16% stated they "definitely" were interested. Second, Mr. Thomas testified that the expected increase in residential electricity rates beginning in 2007, combined with the fact rates will vary from year-to-year going forward, creates uncertainty with respect to electricity prices, and likely will cause customers to perceive value in taking control of their energy consumption and payments through RTP. Third, the RTP Program charges the administrator of the program with responsibility to engage in education and outreach regarding the RTP Program, including the use of bill inserts to promote RTP two times per year. These efforts, Mr. Thomas testified, will increase the visibility of the RTP Program and likely attract customers to the program.

Mr. Thomas estimated RTP administrative costs to be $954,680.30. He arrived at that estimate through the extrapolation of the CEC study cost data to a program with 58,000 participants. The CEC estimated that an RTP Program with 2,000 customers would entail $325,040.30 in administrative costs, and a program with 20,000 customers would entail $496,857.50 in administrative costs. The increase in cost between the 2,000 customer estimate and the 20,000 estimate equals $171,817.20, which amounts to $9.54 per customer. Thus, starting with the baseline of a 2,000 customer program with $325,040.30 in administrative costs, a 58,000 customer program would have $954,680.30 in administrative costs [$325,040.30 + ($9.54 * (58,000-2,000))= $954,680.30].

Altogether, the above-described costs total $4.6 million, which represents the total estimated cost of the Company's RTP Program. By using Dr. Neenan's estimate of gross benefits of$3.2 million to non-participants, Mr. Thomas found that a $2.25 monthly participation charge would result in positive net benefits to non-participating customers of $142,000.

Mr. Thomas supports Dr. Kiesling and Dr. Neenan's testimonies that residential response to real-time prices provides benefits to all residential customers, including those not participating in the RTP Program, and thus recommends that the Commission approve the Company's tariffs because of these benefits.

3. Staff's Position

Staff witness Dr. Schlaf noted the various factors the Commission is required to consider under Section 16-107(b-5) in determining whether the potential for demand reductions will result in net economic benefits to all residential customers. Dr. Schlaf further opined that it would be reasonable to conduct a cost-benefit analysis to assess whether the RTP tariffs meet the net benefits requirement in Section 16-107. Dr. Schlaf further testified that while Staff may not agree with all of the assumptions that are used in CUB's net economic benefits calculation, CUB's conclusion that the RTP Program may be expected to result in net economic benefits for the residential class is supported by the analyses offered by CUB's witnesses.

Dr. Schlaf indicated Staff's support for approval of Rider PRP for the Ameren Illinois Utilities. He also agreed with the manner and method for cost recovery, noting that only the actual level of expenditures identified by Mr. Jones would be collected.

Dr. Schlaf also testified on behalf of Staff that it had no objection to the RFP to be used for retaining the PA, nor the services agreement, which were sponsored by Mr. Jones and are later addressed.

4. Commission Conclusion

Based upon the testimonies from Mr. Voytas and Mr. Jones for the Ameren Illinois Utilities, and from Mr. Thomas and Dr. Neenan on behalf of CUB, the Commission finds the benefits to residential customers who do not participate exceed the costs of the program. Therefore, under Section 16-107(b-25), the Company is directed to recover costs from both groups of customers as proposed. The testimony of Mr. Voytas and Mr. Jones, together with the testimony of Dr. Kiesling, Dr. Neenan, and

Mr. Thomas, establish that the Company's PRP Program, as implemented by its current tariffs proposed by Rider RTP, satisfy the requirements of Section 16-107(b-5). Based upon the testimony of Dr. Kiesling regarding the merits of RTP, the economic benefit analysis performed by Dr. Neenan, which provided an estimate of $7.2 million in annual gross benefits to residential customers, the Commission concludes that the anticipated demand reductions brought about by the RTP Program will produce a net economic benefit to residential customers. The Commission also expects that the anticipated demand reductions may produce economic benefits due to improved system reliability and power quality, market power mitigation and promotion of competition, but those benefits cannot be quantified at this time. Additionally, the tariffs describe the methodology by which the hourly market prices are derived and describe the manner in which customers electing to participate in the RTP Program will receive access to hourly market prices. A customer electing to participate in the RTP Program must continue to participate in the program for at least twelve months consecutively. However, customers who change residence during this period will be exempt from this provision. Additionally, the Commission has analyzed whether the potential for demand reductions will result in net economic benefits to all residential customers of the Company, and has determined that potential exists. Accordingly, pursuant to Section 16-107(b-5), the Commission approves the tariffs described above and the proposed Rider RTP that implement the Company's PRP Program.

IV. SELECTION OF A PROGRAM ADMINISTRATOR

A. Request for Proposal Process

Ameren witness Jones testified that to select the non-affiliated PA for the RTP Program, the Company decided to employ a Request for Proposal ("RFP") process. CUB witness Thomas testified that CUB concurs in the RFP process and agrees that it is reasonable. The Company prepared the RFP materials, provided in Ameren Exhibit 2.2, which explained the Company's need and the process, and sent them to over sixty Retail Electric Suppliers ("RESs"), consulting groups and other entities, including five energy/demand response associations. The Company made a special effort to solicit organizations in New York because it has recently implemented an RTP program.

Mr. Jones further stated that within in the RFP materials, the Company requires that the winning bidder must perform the following services as PA: (1) develop and implement a program to provide consumer outreach, enrollment, and education; (2) establish and administer an information system and provide technical and other customer assistance related to customer management of electricity use; (3) develop and submit an annual report to the Ameren Illinois Utilities no later than April 1 of each year beginning 2008 describing the operation and results of the program, including information on the number and types of residential retail customers taking RTP service, changes in energy use patterns, and assessment of the value of RTP to both participants and non-participants and recommendations regarding modifications to the program from interested parties; (4) participate in any Commission proceeding or investigation into the benefits or effectiveness of the RTP Program, including development of any reports or testimony requested by the Commission or its Staff; and (5) provide participating customers with monthly usage and estimated savings information.

As of the time that this Order is issued, the RFP process is not complete, and therefore the exact identity of the PA is not presently known. However, the types of organizations to whom the Ameren Illinois Utilities sent the RFP and who are potentially vying for the role are known and are described above. The Company asks that the Commission approve the RFP process as a reasonable and appropriate means of selecting a PA.

B. Program Administrator Agreement

Mr. Jones testified that the PA Services Agreement ("Agreement") will contain the terms and conditions under which the PA must administer the RTP Program. The Company prepared a draft of the Agreement and shared it with the parties to this proceeding. Accordingly, the Agreement provided in Ameren Exhibit 2.3 submitted with the testimony represents a collaborative effort by the Company and the parties. Prior to the hearing on December 6, 2006, CUB requested an additional change to the Agreement to include a requirement for an annual telephone conference between the PA and interested parties to discuss the annual report and potential modifications to the program. The Company agreed to that request. Mr. Jones testified that the Ameren Illinois Utilities anticipate the Agreement will be signed in substantially the same form as that submitted to the Commission. Conceivably, the description of the services, listed in Exhibit A to the Agreement, could change slightly to include greater details regarding the services once the winning bidder emerges from the RFP process. In the RFP process, the Company asked each bidder to describe in detail how it will implement the services described above. In order to bind the winning bidder to what it offered to provide, the Company intends to include the descriptions provided by the winning bidder in Exhibit A. Importantly, the actual services to be provided by the PA will not change and are not subject to negotiation.

C. Program Administrator Compensation

The actual compensation of the PA, and thus the cost of the PA, will be determined by the bid selected as the winner of the RFP process. The Company will update Rider PRP with the compensation information once the RFP process is completed and PA Agreement is executed.

D. Commission Conclusion

The Commission finds that the RFP process is a reasonable and appropriate mechanism with which to select the PA. The types of parties to whom the RFP was sent likely constitute qualified applicants. The RFP process is an appropriate means of selecting a suitable party from among such a group to serve in the role of PA. The Commission also finds that the terms of the PA Agreement are reasonable and appropriate. The estimated compensation of the PA also appears reasonable. The Commission understands that the exact compensation level may change upon final selection of the PA. As required by Section 16-107(b-15), once the winning bidder of the RFP process enters into the PA Agreement, the Company shall make an appropriate filing with the Commission initiating a new docket seeking approval of the PA and the PA's compensation. The filing shall include the executed Agreement together with an updated cost exhibit and Rider PRP updated with the cost information from the executed Agreement. The PA, the PA's compensation, and the updated Rider PRP may be approved without a hearing if there is no objection to such a process.

V. ADDITIONAL CONSIDERATIONS

The parties raised several additional issues in their testimony that the Commission should consider. Each is discussed separately below.

A. Program Administrator Financial Audits and Reports

In his testimony, CUB witness Thomas proposed the PA be required to submit to an annual audit of the RTP Program by an independent third party auditor that will be filed in conjunction with the PA's annual report. Mr. Thomas testified: "[an] independent third-party audit of the Program Administrator is consistent with the spirit of the Real-Time Pricing law and important for the overall success of the program. Pursuant to Section 16-107(b-20) of the RTP law, the Commission is required to monitor the performance of the RTP Program. An independent financial audit of the Program Administrator will provide the Commission with additional information to evaluate the program. In addition, an audit will help ensure that resources are being spent in an effective manner and that the resources spent by the Program Administrator are best serving consumers." The Company does not oppose this requirement.

Mr. Thomas' testimony also proposed additional recommendations to implement Section 16-107(b-15) that requires the Program Administrator's annual report be filed with the Commission and posted on the Commission's web site. Mr. Thomas testified "that in order to foster public comment that will aid the administrator in maximizing the public benefits of the program, the following [four] steps should be implemented. First, following the publication of the annual report on the Commission's website, a 30-day period should be given for the public to comment on the annual report. Second, public comments should be posted on the Commission's website in conjunction with the annual report. Third, 15 days after the close of the public comment period, the Program Administrator should be required to facilitate a telephone conference where the annual report and public comments will be discussed with interested participants. The Program Administrator would not be required to implement any of the suggestions raised during the telephone conference, but the Program Administrator would be free to implement those changes that it believes are practical, cost-efficient and pragmatic. Fourth, in conjunction with the annual report telephone conference, the Commission should provide notice of the meeting on its web site and send notice to the parties in this docket." Indeed, all parties agree that this manner of dialogue best serves the interests of the program and the public.

B. Exemption for Program Participants Who Move

Mr. Thomas proposed that the Company provide an exemption from the twelve-month service term for customers who change residences during the first twelve months that they participate in the RTP Program. Mr. Thomas testified that "this provision is necessary to protect customers who have to move unexpectedly due to changes in their jobs or other unforeseen circumstances." The Ameren Illinois Utilities agree with this proposal.

C. RTP Program Evaluation

CUB witness Thomas proposed that the evaluation of the benefits of the RTP Program, and whether the program should continue after the initial three or four year period, should depend on the data collected during the life of the program rather than on any analyses and testimony that may be used to support the adoption of the program. Staff witness Schlaf agreed with Mr. Thomas. Dr. Schlaf stated that the evaluation of the benefits of the RTP program, and whether the program should continue after the initial three or four year period, should depend on the data that is collected during the life of the program, rather than on any analyses and testimony that may be used to support the adoption of the program. Dr. Schlaf also proposed that "that the Commission's final order in this proceeding make clear that approval of Rider PRP based on the analyses and methodologies reflected in the testimonies submitted in the instant proceeding is not intended to limit or proscribe in any way the types of analyses or methodologies that Staff and other parties may submit or propose in subsequent reviews to consider continuation of the Rider PRP program."

D. Commission Analysis and Conclusion

The Commission finds all of the above-described proposals are reasonable, prudent, and will benefit the Company's RTP Program. The Commission finds that the PA shall submit to an annual financial audit by an independent third party that shall be included with the PA's annual report to the Company. The Commission also finds that the PA's annual report shall be subject to a period of public comment that will culminate in a telephone conference between the PA and all interested parties to discuss the annual report, the audit, and public comments. In conjunction with the annual report the Commission shall also provide notice to the public by posting notice on the Commission's website and serve notice on the parties in this Docket. For the reasons given in Mr. Thomas' testimony, the Commission additionally finds that the Company should exempt customers who change residences within the first twelve months of entering the RTP Program from the requirement that they remain on Rider RTP for at least twelve months. In addition, the Commission's approval of Rider RTP based on the analyses and methodologies submitted in this proceeding is not intended to limit or to proscribe in any way the types of analyses or methodologies that Staff and other parties may submit or propose in any subsequent review to consider continuation of the RTP Program.

VI. FINDINGS AND ORDERING PARAGRAPHS

The Commission, having considered the entire record herein and being fully informed in the premises, is of the opinion and finds that:

(1) AmerenCILCO, AmerenCIPS, and AmerenIP are each Illinois corporations engaged in the transmission, distribution, and sale of electricity to the public in Illinois and is a public utility as defined in Section 3-105 of the Act;

(2) the Commission has jurisdiction over the parties and the subject matter herein;

(3) the recitals of fact and conclusions of law reached in the prefatory portion of this Order are supported by the evidence of the record, and are hereby adopted as findings of fact and conclusions of law;

(4) the terms of Rider RTP, together with the terms of proposed Rider PRP, allow residential retail customers to elect RTP beginning January 2, 2007, require residential customers who elect RTP to remain on such rate for a minimum of 12 months, describe the methodology for determining the market price of energy reflected in the real-time rate, and describe the manner in which customers who elect RTP will be provided with ready access to hourly market prices;

(5) the record demonstrates that the potential for demand reductions from RTP will result in net economic benefits for all of Ameren Illinois Utilities' residential customers;

(6) based on the prior finding, Rider RTP, together with the terms of proposed Rider PRP, satisfy the requirements of Section 16-107(b-5) of the Act;

(7) the RFP process adopted by the Ameren Illinois Utilities is a reasonable and appropriate means by which the Ameren Illinois Utilities can select a PA as required under Section 16-107(b-15);

(8) the terms of the PA Agreement that will be signed by the entity selected as PA through the RFP process are reasonable and appropriate;

(9) the PA will be an independent contractor and its activities will not be subject to the IDC rules;

(10) as required by Section 16-107(b-15), once the winning bidder of the RFP process enters into the PA Agreement, the Company shall make an appropriate filing with the Commission initiating a new docket seeking approval of the PA and the PA's compensation, as described in the prefatory portion of this Order;

(11) the expected benefits to residential customers of the Ameren Illinois Utilities' RTP offering exceed the expected costs of that offer;

(12) the allocation of the estimated costs between participants and non-participants as recommended by the parties – a $2.25 participation fee and a variable cost based charge to be incorporated with the monthly customer charge imposed upon all residential customers – is reasonable and appropriate and results in the expected benefits to each group of residential customers exceeding the costs to each group;

(13) the cost tracking mechanism proposed by the Company and contained in proposed Rider PRP is reasonable and hereby approved;

(14) the Ameren Illinois Utilities' recovery of the costs of its RTP program through the participation charge and the added cost to the Supplemental Customer Charge resulting from tracking Rider PRP related costs should be approved;

(15) the proposed Rider PRP is appropriate and reasonable, and should be approved;

(16) the PA shall submit to an annual financial audit conducted by an independent third-party; the results of the audit shall be submitted in conjunction with the annual report to the Ameren Illinois Utilities by April 1 beginning in 2008 and to the Commission and the general public 30 days thereafter;

(17) following the publication of the annual report on the Commission's web site a 30-day period shall be granted for public comment on the annual report; public comments shall be posted on the Commission's web site with the annual report; within 15 days of the 30th day of the public comment period the PA shall facilitate a telephone conference where the annual report, audit, and public comments shall be discussed with the interested parties; the PA and the interested parties in this docket shall work to agree upon a convenient time and date for the telephone conference; the Commission shall provide notice of the telephone conference by sending notice to the parties in this docket and posting notice on the Commission's web site in the same location as the PA's annual report; and

(18) new tariff sheets authorized to be filed by this Order should be filed with the Office of the Clerk within 3 business days from the date of this Order and reflect an effective date of January 2, 2007.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that the tariff sheets filed by Central Illinois Light Company d/b/a AmerenCILCO, Central Illinois Public Service Company d/b/a AmerenCIPS, and Illinois Power Company d/b/a AmerenIP on September 29, 2006 and proposing to establish Rider PRP, are permanently canceled and annulled.

IT IS FURTHER ORDERED that Central Illinois Light Company d/b/a AmerenCILCO, Central Illinois Public Service Company d/b/a AmerenCIPS, and Illinois Power Company d/b/a AmerenIP are authorized to file new tariff sheets in accordance with the Findings above applicable to the service to be provided on and after the effective date of said tariff sheets.

IT IS FURTHER ORDERED that Central Illinois Light Company d/b/a AmerenCILCO, Central Illinois Public Service Company d/b/a AmerenCIPS, and Illinois Power Company d/b/a AmerenIP shall, no later than January 5, 2007, initiate a new docket seeking approval of the Program Administrator and the Program Administrator's compensation in accordance with Finding (10).

IT IS FURTHER ORDERED that Central Illinois Light Company d/b/a AmerenCILCO, Central Illinois Public Service Company d/b/a AmerenCIPS, and Illinois Power Company d/b/a AmerenIP shall provide the Program Administrator with all information necessary to perform the Program Administrator's duties, including, but not limited to, customer, account, and energy use data.

IT IS FURTHER ORDERED that any motions, petitions, objections, and other matters in this proceeding that remain outstanding are hereby resolved in a manner consistent with the outcome of this Order.

IT IS FURTHER ORDERED that, subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Admin. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By order of the Commission on this 20th day of December, 2006.

(SIGNED) CHARLES E. BOX

Chairman